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TAGS: [EAID](#) [ECON](#) [EFIN](#) [EG](#) [PGOV](#) [PREL](#)

SUBJECT: WASHINGTON LAYS OUT PARAMETERS FOR EGYPT ESF
DISCUSSIONS

REF: A. CAIRO 1725 B. CAIRO 1727

Classified By: NEA Acting A/S Michael Corbin, EO 12958 Reasons 1.4 b&d

11. This is an action request. See paragraph 3.

12. (C) SUMMARY: Embassy Cairo correctly understands that the most recent Government of Egypt (GOE) proposal for the Economic Support Funds (ESF) program goes beyond what Washington is willing to support in the name of better bilateral relations (Ref B). The interagency is not receptive to increasing Egypt ESF levels in a particularly tight budget environment. Although USAID and the Department have not yet fully developed a counterproposal to Egypt on an endowment, the United States cannot support any endowment proposal of the magnitude the GOE envisions, nor one that includes debt relief. The Embassy should certainly maintain the same level of oversight over FY 2009 scholarship funds and go forward with the activities notified to Congress for Egypt's FY 2009 funding. Furthermore, the Department is concerned about Egyptian threats to hold FY 2009 and FY 2010 programming hostage to its maximalist proposals (Ref A) and wishes to remind Egypt of the significant changes the United States made in its approach to ESF in spring 2009. END SUMMARY.

Action Request

13. (SBU) The Department requests that the Ambassador, in her meeting with Minister of International Cooperation (MIC) Fayza Aboul Naga on September 9, pursue the following objectives.

-- Express the Administration's desire to maintain a positive bilateral relationship with Egypt, in which we address our differences via consultations and negotiations.

-- Convey the message that out-year ESF levels are dependent on multiple Congressional consultations and the FY 2011 budget is yet to be determined within the Administration, but we are pleased with the results on FY 2010.

-- Inform the Minister that the USG is working on an endowment counterproposal that it hopes can meet both our governments' interests. U.S. interests include mutually agreeable institutional mechanisms that guarantee a high level of accountability for the use of funds, adherence to U.S. accounting and oversight requirements, and an acceptable co-management framework.

-- Convey the Washington positions on debt relief and FY 2009 funds to support the President's Cairo speech.

-- Convince MIC Aboul Naga that because of the U.S. economic situation and U.S. Congressional interests, returning to the terms of the GOE's November 2007 proposal will not be possible.

ESF Levels

14. (SBU) The Embassy is directed not to share the Department of State's planned FY 2011 or out-year ESF level for Egypt with the GOE. It would be a premature discussion, as the Department has not yet submitted its FY 2011 budget request to the Office of Management and Budget (OMB), which has responsibility for preparing the President's Budget. Details of the President's budget are not public until the budget is transmitted to the Congress in February 2010.

15. (C/NF) The Department of State intends to include a \$250 million request for ESF in its OMB submission. Given Egypt's large existing pipelines of prior year funding, and competing priorities in a constrained budget environment, it will not be possible to raise the level further. The Administration made exceptional efforts to raise the level to \$250 million in FY 2010 and NEA has gone to great lengths to maintain this level in FY 2011, which will be an extraordinarily difficult budget year.

16. (SBU) The USG believes it premature to discuss a phase-out of the ESF program, because of the nature of our strategic relationship and the fact that our two governments did not even discuss trade between 2005 and 2009. Similarly, it is premature to discuss potential levels FY 2011 and out-year funding with the GOE and Embassy should discourage the pursuit of a multi-year assistance commitment at this time. Washington encourages Embassy to continue discussions with the GOE on the focus of foreign assistance. The USG view is that the bulk of future ESF funds will be focused on the array of educational and other goals outlined by President Obama in his June 4 speech in Cairo. There will still be a portion of the programmatic portfolio directed to democracy and governance, as well as a modest technical assistance component.

Endowment

17. (SBU) The USG has been working to develop a counterproposal on an endowment that meets the interests of both our nations, which we hope to submit soon. The preliminary view is that any fund would initially be a relatively modest, NGO-run operation with a limited focus on a few priority themes. These ideas about endowment concepts are very preliminary and will require extensive consultation with Congress.

18. (SBU) As Washington laid out in April, the primary U.S. concerns are to find mutually agreeable institutional mechanisms that guarantee a high level of accountability for the use of funds and an acceptable co-management framework. Congressional oversight of our foreign assistance remains very high, especially with assistance to Egypt. Any endowment fund would need to fulfill all accounting and oversight requirements that normally accompany U.S. assistance grants. Furthermore, Egypt still faces significant challenges in the areas of health, education, and poverty, and our USAID programs continue to be well-positioned to help the GOE address them.

Debt Relief

19. (SBU) The United States cannot consider any adjustments to Egypt's debt in the context of assistance programming. U.S. policies on the two issues are made completely separately. The Embassy should urge the GOE to approach the Departments of State and Treasury in Washington if there is a need for any further clarification on debt or debt relief.

110. (SBU) The USG has never agreed that ESF levels should equal or exceed Egypt's debt payments. The U.S. view is that assistance levels are best justified by development needs of the recipient country and what the assistance programs can achieve on the ground. FMF of \$1.3 B annually also contributes significantly to Egypt's assistance package.

Additionally, the United States forgave over \$12 billion in Egyptian debt in 1990-91 as a strong symbol of our great friendship with Egypt. Egypt's debt burden has now become sustainable based on standard measures, and U.S. policy generally supports debt forgiveness only for countries with unsustainable debt burdens.

Use of FY 2009 Funds

¶11. (SBU) The USG supports using up to \$19 million, the currently approved portion of FY 2009 ESF funding for higher education, for scholarship programs that support the priorities outlined in the President's Cairo speech. If the decision is made to increase the amount of scholarship programs beyond what is currently approved, reprogramming will be needed. The Department does not currently support reprogramming funds to meet the \$40 million scholarship request at this time.

¶12. (SBU) The Department believes that a portion of USAID/Cairo's follow-up initiatives to the President's Cairo speech should, if they fall within the existing approved use of Egypt ESF funds, help expand and initiate other educational activities domestically in Egypt, such as model science and technology high schools, an agricultural technology school, and expanding an English language program for secondary students. Such programs will help improve Egyptian competitiveness across the board.
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